

Top Secret



Central Intelligence Bulletin

State Department review completed

Top Secret

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20 December 1973

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Approved For Release 2004/01/15 : CIA-RDP79T00975A025900030001-1

Approved For Release 2004/01/15 : CIA-RDP79T00975A025900030001-1

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ARAB STATES - ISRAEL: The cease-fire lines remained relatively quiet as Egypt and Israel prepared to meet at Geneva tomorrow.

In a statement at Cairo airport, the Egyptian foreign minister reassured the Arab world that Egypt was committed to securing Israel's complete withdrawal from Arab territories and the restoration of Palestinian rights. In an allusion to Syria's announced reasons for not attending the conference, he pledged that his delegation does not intend to enter into peripheral details in the discussions.

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Meanwhile, no further statements were reported from Damascus, where President Asad was meeting yesterday with King Husayn and a Jordanian delegation. Husayn's primary purpose in making the visit was to discuss Arab support for Jordan's attendance at the conference and to work out details of the Jordan Arab Army's role if fighting should resume on the Syrian front.

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FRANCE: The government has been further weakened by a scandal arising from the attempted bugging of a newspaper office.

The bugging attempt has dominated the media since a group of "technicians" were discovered earlier this month installing illegal microphones in the offices of Le Canard Enchaîné. A unique French institution, the Canard has mercilessly satirized politicians, exposed scandals, and exerted considerable influence for over 60 years. The paper is noted for tenaciously investigating cases and publishing the results no matter who is involved. Interior Minister Marcellin quickly denied any direct or indirect official involvement, but, according to the US Embassy, the public does not accept the denial.

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The Canard affair, coupled with other domestic and foreign policy problems, presents a serious challenge to the government. France's declining role in international affairs and rising inflation at home have already convinced most Frenchmen that their government is not very effective. Continued rumors about Pompidou's failing health have also contributed to this impression.

The bugging scandal has created demands for a cabinet shake-up, with Marcellin the most obvious target. Prime Minister Messmer is also a target, not because his integrity is questioned, but because in the public's view he symbolizes the present weak leadership. Three leading Paris weeklies this week demanded his resignation.

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Rising discontent will put increased pressure on the government to take effective action. [REDACTED]

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[REDACTED] are likely to result in postponement of any cabinet changes for as long as possible. He has already suffered several personal political setbacks in the past six months, some of which were sharpened by the failure of Gaullist leaders to support his proposals. The replacement of Messmer, in particular, would present Pompidou with a difficult problem because the leading contenders have significant liabilities. Giscard d'Estaing is held responsible for many of the nation's economic problems and is anathema to the Gaullists; Chaban-Delmas has the support of hard-line Gaullists, but is disliked by Pompidou. Other well-known officials lack either the necessary experience or political base. [REDACTED]

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EUROPEAN COMMUNITIES: The blow-up over regional development policy at this week's Council meeting has dimmed the limited achievements of the summit and made it clear that summitry in itself is no substitute for the familiar tough bargaining in community institutions.

The Council meeting, with foreign ministers present, broke down in bitter and acrimonious debate because of Britain's refusal to agree to the \$750-million sum which Germany--the biggest potential contributor to a regional development fund--proposed for the fund's first three years of operation. Germany indicated some willingness to compromise on a higher figure, but one still far short of the \$3.75 billion London has been insisting on. Britain insists on agreement on the regional fund before endorsing the energy measures proposed at the summit. Implementation of the so-called second stage of economic and monetary union also has been postponed because of disagreement over the fund.

The German position was reflected in the statement of State Secretary Apel after the Council session that Bonn "is not the treasurer of the EC." Bonn is unwilling to continue bearing the largest share of the EC's financial burden, a stand strengthened by growing unemployment at home arising from the energy crisis. Moreover, Germany has been saying for some time that it wants better economic policy coordination in the EC in order to avoid wasteful disbursements for regional and other programs. At the summit meeting last week, the Germans again expressed their reservations about a large regional fund, but Heath reportedly felt that "concessions" he made to the Germans and Dutch on the energy question entailed a moral commitment for something substantial on regional policy. The German stand on regional funds, nevertheless, was probably intended to show Bonn's continued displeasure with Britain's Middle East and energy policies. The ultimate direction Bonn will take in the fund dispute is, however, currently a matter of raging debate within the government, according to an official of the Economics Ministry.

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The transfer of resources involved in the regional fund is of major political importance to the principal beneficiaries--the UK, Italy, and Ireland. The direct transfer of funds from rich to poor regions, moreover, would mark an important step in the development of economic integration. A German desire to restrict, initially at least, disbursement to only the neediest regions--while designed to overcome British, Italian, and Irish opposition to a smaller total fund--would, in effect, run counter to the principle of community-wide eligibility. France, which also favors a small fund and apparently took a relaxed stand at this week's meeting, would probably reject receiving reduced benefits under this condition.

The Council is scheduled to meet again on January 7 in order to resolve the differences over regional policy. The uneasy domestic political situations in virtually all of the EC countries, however, will make it hard for the Council members to compromise.

SPAIN: The trial of the "Carabanchel Ten" dissident labor leaders, opening today in Madrid, will help solidify opposition to the Franco government and will further estrange Spain from the European Community.

The case involves ten leaders of the clandestine, Communist-dominated Workers Commissions who were arrested in June 1972 while conducting a "summit meeting" at a monastery in Madrid. The group has been detained without trial in Madrid's Carabanchel prison since that time. Most of the prisoners are prominent members of, or have close association with, the illegal Spanish Communist Party.

Despite the Communist affiliation of the defendants, the non-Communist opposition has rallied to their defense. The incident is being viewed as an opportunity to publicize government restrictions on public assembly and to support the workers in their struggle to form independent labor organizations. The government, on the other hand, is equally determined to prevent a free labor movement from developing and apparently intends to keep the dissidents in confinement. The police have arrested a number of student and labor agitators in order to discourage demonstrations during the trial.

The government's legal case is considered weak, because the prosecution cannot make the usual charge of "illegal assembly," which the law defines as 20 or more persons meeting without a permit. The defendants instead have been charged with "illicit association," "illegal propaganda," and "leadership" of an illegal group. The unusually stiff prison terms demanded by the state--ranging from 12 to 20 years--have aroused strong anti-regime sentiment within Spain and abroad.

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The church is also involved because one of the defendants is a priest who has been held separately at a special prison for priests in Zamora. Last month he participated in a hunger strike with six other priests. Clerics in various cities have held sympathy demonstrations protesting in part against the concordat that permits members of the clergy to be incarcerated in special facilities.

The trial will be viewed with apprehension by those elements of the power structure who have been attempting to improve Spain's image abroad in an effort to clear the way for closer ties between Spain and the European Communities. This effort has been impeded, at least in part, by strong anti-Franco sentiment within the EC.

ARGENTINA: The forced resignation of army chief General Carcagno gives President Peron further opportunity to strengthen his support among the military.

Carcagno's resignation came after the Senate failed to give its usually pro forma approval to the promotion list he had recommended. The legislature probably acted at the behest of Peron, who had lost confidence in Carcagno because of his rumored presidential ambitions and his efforts to curry favor with leftist youth and labor. Moreover, Carcagno's popularity among fellow officers--never very high--had dipped further in recent months, and both military and political circles considered his departure inevitable.

The naming of General Leandro Anaya, corps commander for the Buenos Aires region, as new army chief may be a holding action to give Peron time to initiate a housecleaning in the army that would bring into command younger officers more responsive to his direction. A similar high-level shake-up in the navy earlier this month over a promotion dispute enabled Peron to sweep out opponents in that service, long considered a stronghold of anti-Peronist sentiment.

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FOR THE RECORD*

Grenada: The British Parliament has approved independence for the Caribbean associated state of Grenada, effective February 7, 1974. Opposition leaders plan to launch a general strike on December 27 as the next step in their continuing efforts to bring down Premier Eric Gairy's government before independence day.

**This item was prepared by CIA without consultation with the Departments of State and Defense.*

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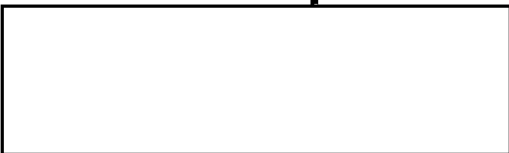
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